

## Message Text

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ORIGIN EB-11

INFO OCT-01 ARA-16 ISO-00 FEA-02 SS-20 NSC-07 PA-04 PRS-01

USIA-15 IO-14 AF-10 NEA-14 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-02 COME-00 DODE-00 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 OMB-01 PM-07 RSC-01 SAM-01 SCI-06

SP-03 STR-08 TRSE-00 /202 R

DRAFTED BY EB:ORF:FSE:MVCREEKMORE:LED

APPROVED BY EB - MR. THOMAS O. ENDERS

EB/ORF/FSE - MR. MAU

ARA - MR. FORRESTER

ARA - MR. DEVINE

ARA - MR. SHLAUDEMAN

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P 102244Z JUN 74

FM SECSTATE WASHDC

TO AMEMBASSY CARACAS PRIORITY

C O N F I D E N T I A L STATE 122431

E.O. 11652: GDS

TAGS:ENRG

SUBJECT: DEMARCHE PRIOR TO OPEC MEETING IN QUITO

REF: STATE 117824

1. AT THE JUNE 15 MEETING IN QUITO, TWO MEASURES FOR RAISING PRODUCERS' OIL REVENUES WILL BE DISCUSSED. SAUDI OPPOSITION WILL HOPEFULLY BE SUFFICIENT TO HEAD OFF EFFORTS TO RAISE THE POSTED PRICE. THE APPEAL OF AN "EXCESS PROFIT TAX" ON THE COMPANIES MAY BE MORE DIFFICULT TO COUNTER EVEN THOUGH THE RESULT WILL BE THE SAME, I.E., HIGHER GOVERNMENT TAKE AND HIGHER WORLD OIL PRICES RESULTING FROM THE ADDITIONAL TAX BEING PASSED THROUGH TO THE CONSUMERS. WE ARE REPEATING REFTEL TO YOU, WHICH DESCRIBES WHAT WE KNOW OF THE LIKELY SUBSTANCE OF THE  
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QUITO MEETING.

2. WE RECOGNIZE THAT VENEZUELA CONTINUES TO BE ONE OF THE LEADERS WITHIN OPEC FOR HIGHER OIL PRICES. WHILE WE ARE NOT OVERLY SANGUINE THAT OUR REPRESENTATIONS AT THIS TIME WILL CHANGE THIS ATTITUDE, UNLESS YOU CONSIDER SUCH ACTION CLEARLY INAPPROPRIATE WE BELIEVE A DEMARCHE SHOULD BE MADE AT THE APPROPRIATE LEVEL PRIOR TO THE QUITO MEETING. SINCE WE HAVE NOT YET DECIDED IF OTHER OPEC STATES WILL ALSO BE APPROACHED, WE RECOMMEND THAT THE EMBASSY'S REPRESENTATION BE MADE WITHIN THE CONTEXT OF OUR DESIRE

FOR AN EXPANDED AND CANDID DIALOGUE BETWEEN OUR TWO COUNTRIES ON ISSUES OF MUTUAL INTEREST AND CONCERN.

3. THE EMBASSY MIGHT WISH TO DRAW ON THE FOLLOWING POINTS IN MAKING ITS REPRESENTATION:

A. AS EMPHASIZED IN THE RECENT VISITS OF FORMER TREASURY SECRETARY SHULTZ AND AMBASSADOR EBERLE, WE BELIEVE THE INTERESTS OF BOTH OUR COUNTRIES WILL BE SERVED BY A CLOSE AND CONTINUING RELATIONSHIP BASED ON MUTUAL INTEREST AND TRUST.

B. WE SEEK A FRANK AND EXTENSIVE DIALOGUE THAT PERMITS US TO FACE SQUARELY OUR COMMON PROBLEMS AND SEEK MUTUALLY ACCEPTABLE SOLUTIONS.

C. IN OUR DETERMINATION TO BE FORTHRIGHT AND CANDID, WE WISH TO POINT OUT AGAIN THE GROWING CONCERN IN THE US AND IN OTHER OIL CONSUMING COUNTRIES REGARDING THE ABRUPT MASSIVE INCREASES IN OIL PRICES OVER THE PAST SEVERAL MONTHS. SEVERAL INDUSTRIAL STATES ARE ALREADY SUFFERING SIGNIFICANT ECONOMIC DISLOCATION BECAUSE OF THE HIGH OIL PRICES. MANY DEVELOPING COUNTRIES ARE REELING TOWARD ECONOMIC COLLAPSE.

D. WE BELIEVE A CONTINUATION OF THIS TREND WILL REDOUND TO THE DISADVANTAGE OF ALL, PRODUCERS AND CONSUMERS ALIKE. NO ONE WILL GAIN IN A WORLD CHARACTERIZED BY SPIRALING INFLATION, DECLINING REAL INCOME, AND

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FALTERING AND FAILING ECONOMIES. WE APPRECIATE THE DESIRES OF PRODUCING COUNTRIES TO MAXIMIZE THE REVENUES RECEIVED FROM THEIR IRREPLACEABLE RESOURCES, BUT SUCH A POLICY MAKES SENSE ONLY IN A STABLE AND GROWING WORLD ECONOMY BASED ON AN ECONOMICALLY SUSTAINABLE PRICE STRUCTURE.

E. WE RECOGNIZE THAT RECENT HIGH PRICES FOR FOOD

AND OTHER COMMODITIES HAVE COMPOUNDED THE INFLATIONARY THRUST OF OIL PRICES. HOWEVER, WE ARE PLEASED TO NOTE THAT MOST OF THESE OTHER PRICES ARE FALLING RAPIDLY BECAUSE COUNTRIES, SUCH AS THE US, HAVE EXPANDED PRODUCTION TO THE MAXIMUM EXTENT POSSIBLE. ON THE OTHER HAND, OFFICIAL POSTINGS OF OIL PRICES HAVE NOT BEEN REDUCED EVEN THOUGH THE LATEST QUOTATIONS ON THE SPOT MARKET DEMONSTRATE THE NEED FOR A REDUCTION.

F. WE WOULD HOPE THAT AT THE OPEC MEETING IN QUITO VENEZUELA WOULD NOT SUPPORT THE DEMAND FOR HIGHER OIL PRICES. RAISING THE POSTED PRICE OR IMPOSING A SO-CALLED "EXCESS PROFIT TAX" WOULD HAVE THE SAME EFFECT ON THE WORLD'S CONSUMERS, NAMELY, RAISING THE PRICES THEY MUST PAY FOR OIL. DESPITE ITS APPEALING SIMPLICITY, THE DIFFERENCE BETWEEN THE COMPANIES' PRICE OF EQUITY OIL AND THAT OF THE POSTED PRICE (OR A HIGH PERCENTAGE THEREOF) CANNOT ACCURATELY BE LABELED "EXCESS PROFITS." IN ACTUAL FACT, THE COMPANIES AVERAGE THEIR COST OF EQUITY AND PARTICIPATION OIL TO DETERMINE THEIR TRANSFER PRICES. CONSEQUENTLY, ANY ADDITIONAL TAX IMPOSED ON THEM WILL NOT REDUCE THEIR PROFITS BUT RATHER BE PASSED ON.

G. WE APPRECIATE THE OPPORTUNITY TO TALK FRANKLY ABOUT THIS CRITICALLY IMPORTANT PROBLEM AND TRUST THAT OUR VIEWS WILL RECEIVE CAREFUL CONSIDERATION IN FORMULATING GOV POSITIONS IN QUITO. IN THE FUTURE, WE TRUST YOU WILL BE RECEPTIVE TO OUR RAISING OTHER ISSUES WITH EQUAL CANDOR AS WE BUILD ON AND EXPAND OUR DIALOGUE AND GROWING SENSE OF SHARED INTERESTS. WE HOPE YOUR GOVERNMENT WILL FEEL EQUALLY INCLINED TO MAKE ITS VIEWS AND PROBLEMS KNOWN TO US. SISCO  
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